



Borough Council  
Borough of Orwigsburg  
Orwigsburg, Pennsylvania

In planning and performing our audit of the financial statements of Borough of Orwigsburg as of and for the year ended December 31, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered Borough of Orwigsburg's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Borough's internal control. Accordingly, we do not express an opinion on the effectiveness of the Borough's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in internal control to be a material weaknesses:

### ***SEGREGATION OF DUTIES***

The Borough, like many small organizations, does not have a complete internal control system because of an inadequate segregation of duties due to limited staff size. A good system of internal control procedures contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion. While we recognize that the Borough is not large enough to permit an adequate segregation of duties in all respects, it is important that you are aware of this condition. Understanding the risk and staying diligent in your oversight duties is important to keep in mind throughout the year.

### ***PREPARATION AND REVIEW OF BANK RECONCILIATIONS***

During our review of the cash reconciliations, we noted the bank account reconciliations for the PLGIT and Mid Penn Bank accounts were not prepared for December 2022. In addition, during our review of the cash reconciliations for all funds, we noted one bank account reconciliation that was prepared incorrectly. Bank reconciliations should be prepared shortly after month-end for all Borough bank accounts to identify any adjustments needed to the accounting in a timely manner.

In addition, during our review of the cash reconciliations for all funds, we noted all bank account reconciliations did not consistently include documentation of review by a second individual. We recommend all account reconciliations are formally reviewed soon after preparation to allow for any potential errors to be corrected in a timely manner, and initials and signoffs are included on the reconciliation by the reviewer each month.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in internal controls to be a significant deficiency:

### ***RECOMMENDATION OF INTERNAL CONTROLS***

It was noted that salary and pay rates are approved by Council during the budget meeting, however, no formal, approved listing of pay rates is maintained by the Borough to support rates input into the payroll system for payment. We recommend that the Council create an official listing of pay rates for each employee at the beginning of the year and that the Council would review this listing and approve it. This documentation helps management support all employees' pay rates if there were ever disagreements over compensation in the future.

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We believe part of our responsibility, as your independent certified public accountants, is to bring to your attention our observations and suggestions which we feel are opportunities for strengthening internal controls, improving operating efficiency, and assisting you in managing the Borough. The following comments and suggestions cover matters which came to our attention during our audit which we believe merit your consideration.

### ***GASB 96 – SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS***

In May 2020, the GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements (SBITA), which provides guidance on the accounting and financial reporting for such arrangements.

A SBITA is defined as a contract that provides the right to use a vendor's information technology software and, if applicable, underlying IT assets for a period of time in an exchange or an exchange-like transaction. The subscription term includes the period during which a governmental entity has a noncancellable right to use the underlying IT assets and includes periods covered by an option to extend or to terminate.

Under this Statement, a governmental entity should recognize a right-to-use subscription asset and a corresponding subscription liability as of the date the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. The subscription asset should be initially measured as the total of the initial subscription liability amount, payments made to the vendor before the subscription term, and capitalizable implementation costs.

Subscription payments should be discounted using the interest rate charged or the governmental entity's incremental borrowing rate. Amortization of the discount on the subscription liability and amortization of the subscription asset should be presented as an outflow of resources over the subscription term.

This statement is effective for the year ending December 31, 2023. We will be working with management to assist in determining the impact on the Borough's financial reporting of SBITA.

#### ***GASB STATEMENT NO. 100 – ACCOUNTING CHANGES AND ERROR CORRECTIONS***

In June 2022, the GASB issued Statement No. 100, Accounting Changes and Error Corrections, an Amendment of GASB Statement No. 62, to strengthen accounting and financial reporting requirements for accounting changes and error corrections and provide more reasonable, reliable, and relevant information for making decisions.

The three categories of accounting changes include a change in accounting principle, a change in accounting estimate, and a change to or within the Financial Reporting Entity. Under the proposed Statement, the three categories are specified with additional clarification about the transactions and events in each. The Statement also address the correction of error in previously issued financial statements, including mathematical mistakes, changes from applying accounting principles not generally accepted to those that are generally accepted, and misuse of known facts when the financial statements were issued. Any changes impacted by this Statement would be reported retroactively by restating the financial statements for all prior periods presented. The Statement would also require additional disclosures.

This Statement would be effective for the December 31, 2024 fiscal year.

#### ***GASB STATEMENT NO. 101 – COMPENSATED ABSENCES***

The GASB has issued a statement on Compensated Absences in order to align the recognition and measurement for all types of compensated absences under a unified model and refine disclosure requirements.

Under the Statement, a governmental entity requires a liability for compensated absences to be recognized if the absence accrues, is attributable to services rendered, and is more likely than not to be either paid or settled through other means. The Statement also establishes guidelines for measuring the liability, generally requiring accumulated leave to be calculated based on the pay rate as of the financial reporting date and accounting for certain salary-related payments that are both directly and incrementally associated with payments for compensated absences. The Statement also provides exceptions to current required disclosures.

The Statement is effective for the December 31, 2024 fiscal year.

#### ***GASB CHANGES TO REPORTING MODEL***

The GASB is in the process of making significant changes to governmental financial statements and the underlying basis of accounting and has issued several documents for public comment. The GASB standard setting process includes issuing multiple documents in advance of issuing a final statement/standard that provide the public an opportunity to review standards in draft format, see the direction GASB is headed and provide feedback to the standard setting process. These current drafts relate to improving the financial reporting model and recognition of elements in the financial statements and will likely have a significant impact on the existing financial reporting model utilized by governmental entities.

The goal of this process is to improve financial reporting by enhancing comparability and understandability in financial reporting by state and local governments in several ways, as well as by providing additional decision-useful information. The following issues are being considered:

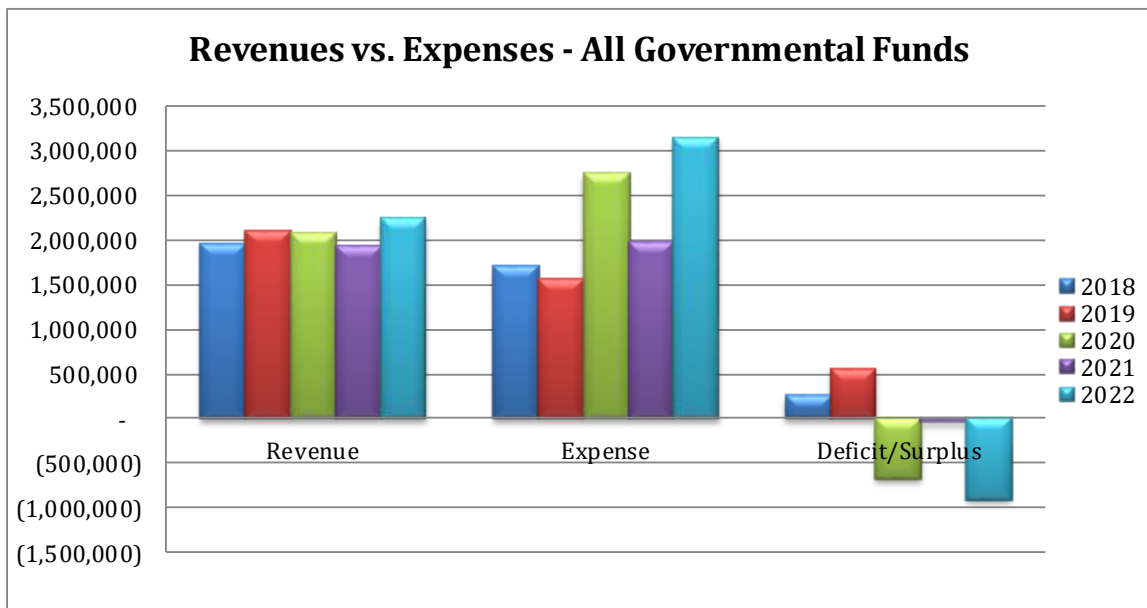
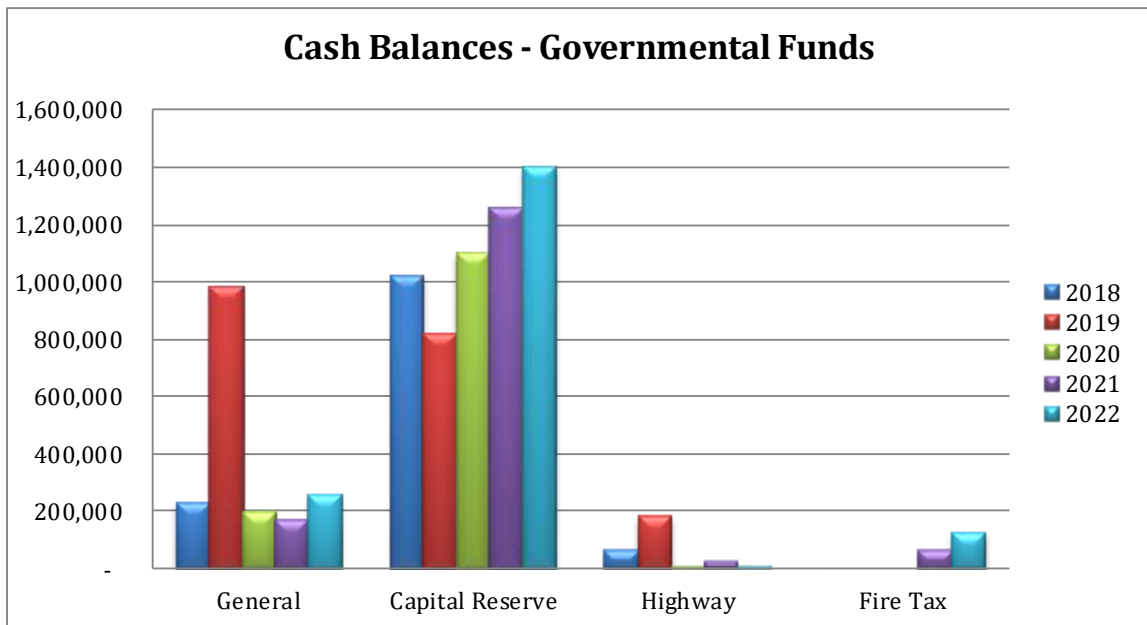
- Changes to requirements for management's discussion and analysis
- Adding reporting for unusual or infrequent items
- Changes to reporting classifications in proprietary fund statement of revenues, expenses, and changes in fund net position
- Require budgetary comparison information to be shown as required supplementary information and add variance analysis as notes to RSI
- Changing the basis of accounting for governmental funds to a short-term financial resources measurement focus and the accrual basis of accounting focused on short-term transactions
- Provide concepts definition of elements of the financial statements to provide a basis for future standards
- Provide a framework/methodology for determining the proper categorization of revenue and expense transactions
- Defining appropriate information for inclusion in footnotes and evaluation of cost versus benefits to determine when information should be added to the footnotes.

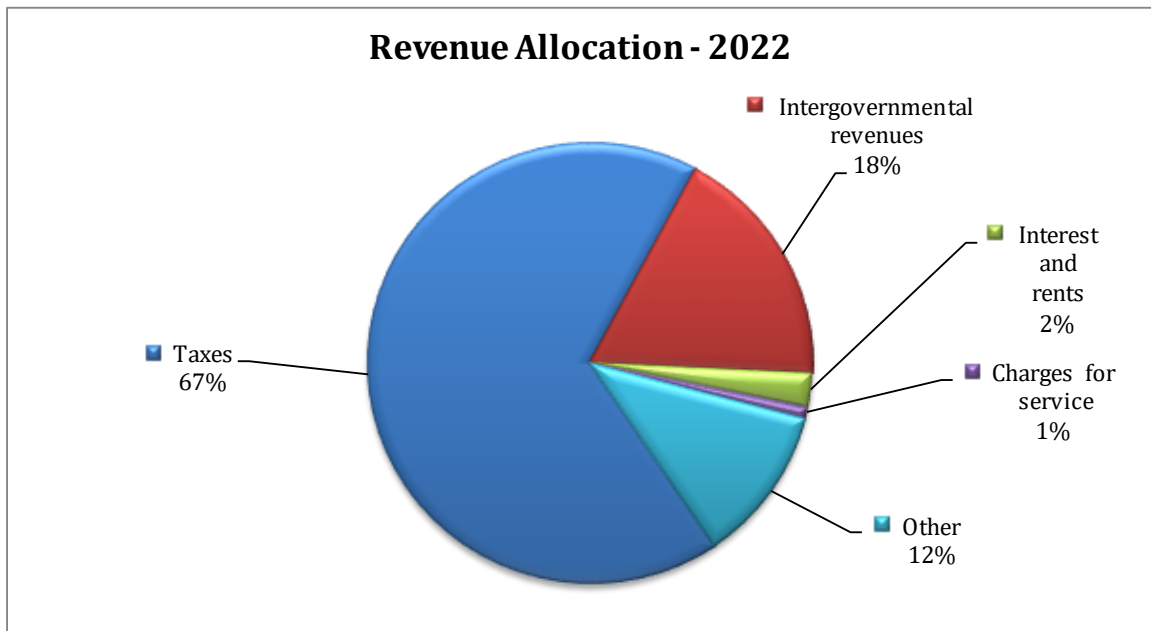
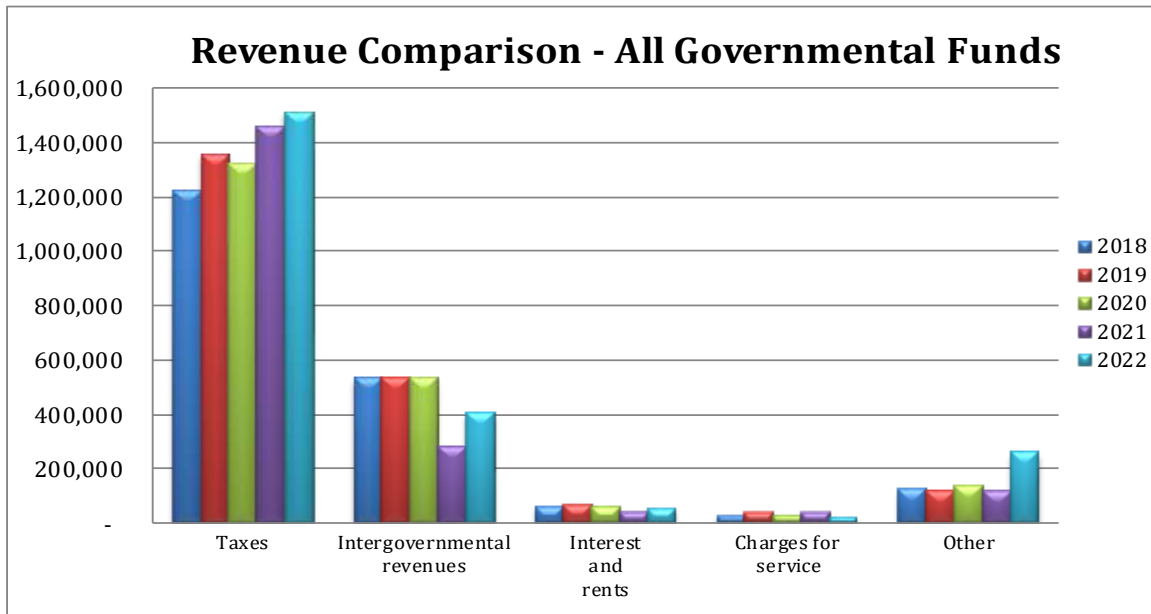
While each of the above items may not be applicable to all governmental entities, we wanted to make you aware of the potential changes and impact it may have to your financial statements in the future.

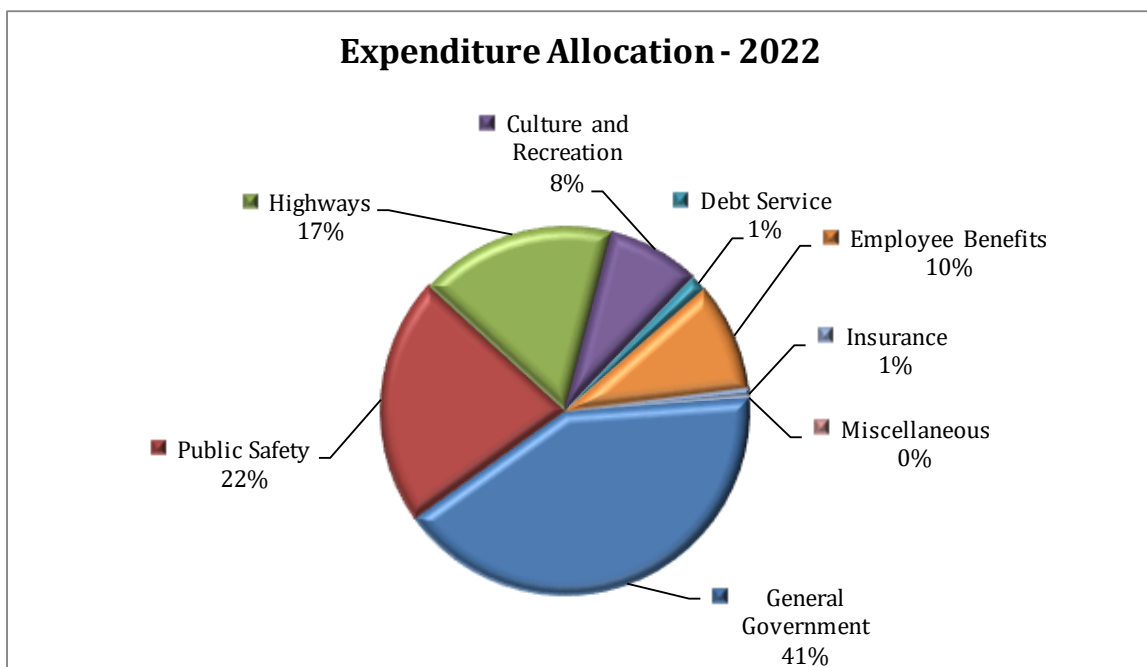
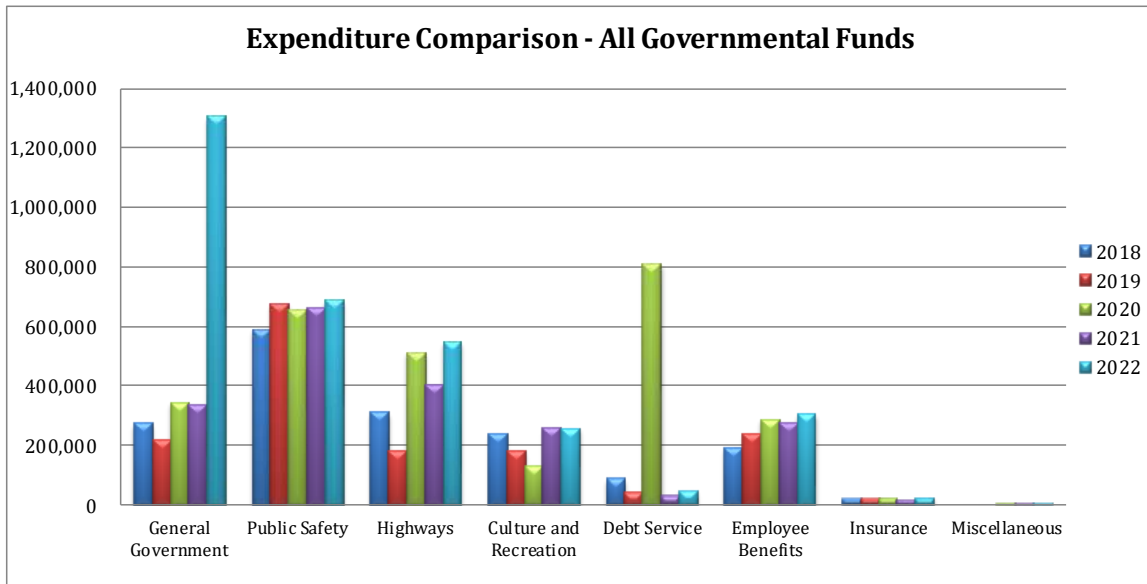
These draft standards will likely become effective over the next 2-3 years. We will continue to monitor the progress of those items through GASB and will communicate in the future once the statements themselves are issued.

## GRAPHICAL ANALYSIS

We have included several graphs below that we believe will help in your financial analysis and planning for the future of the Borough of Orwigsburg.

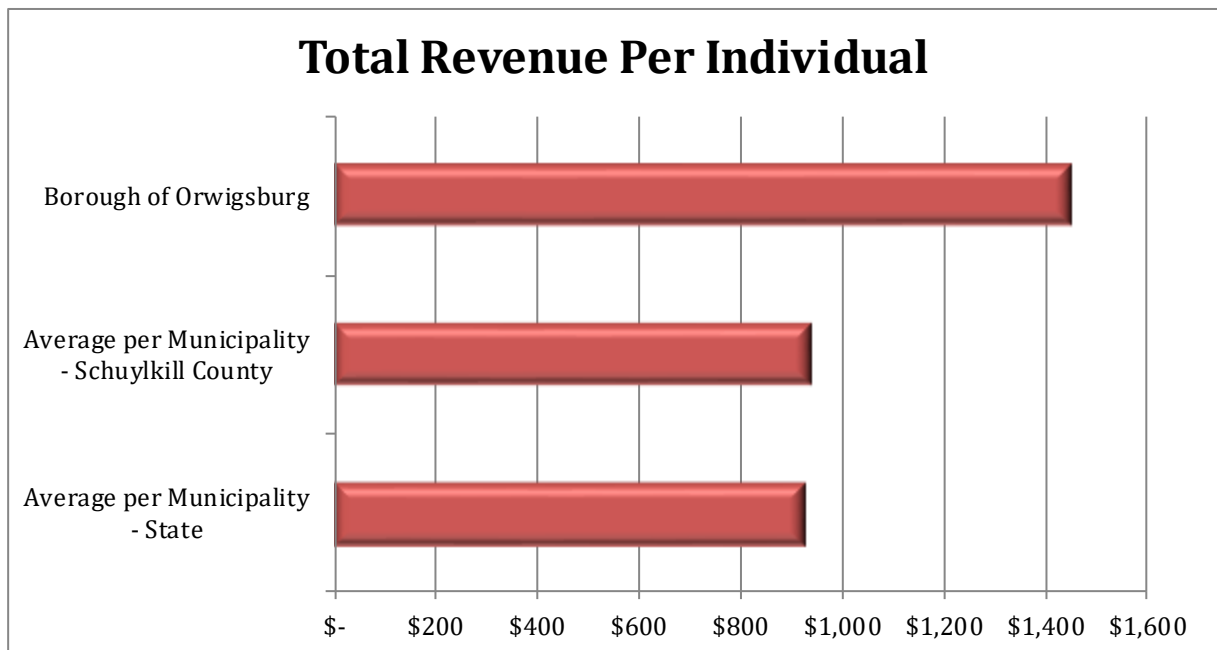
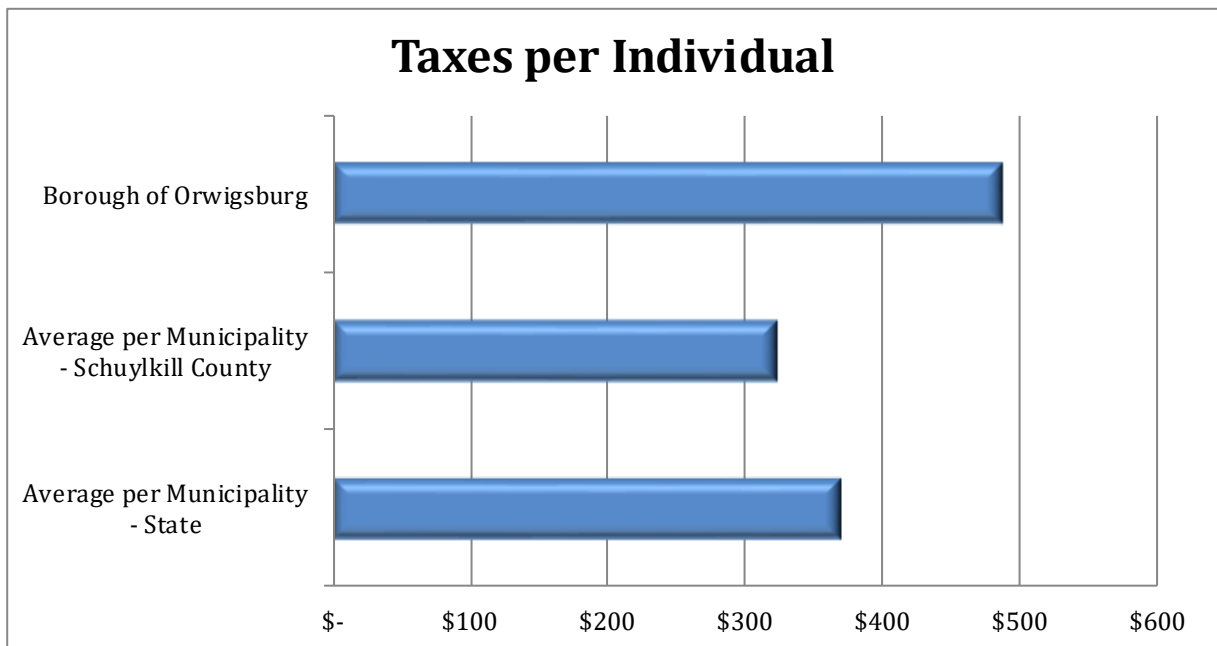




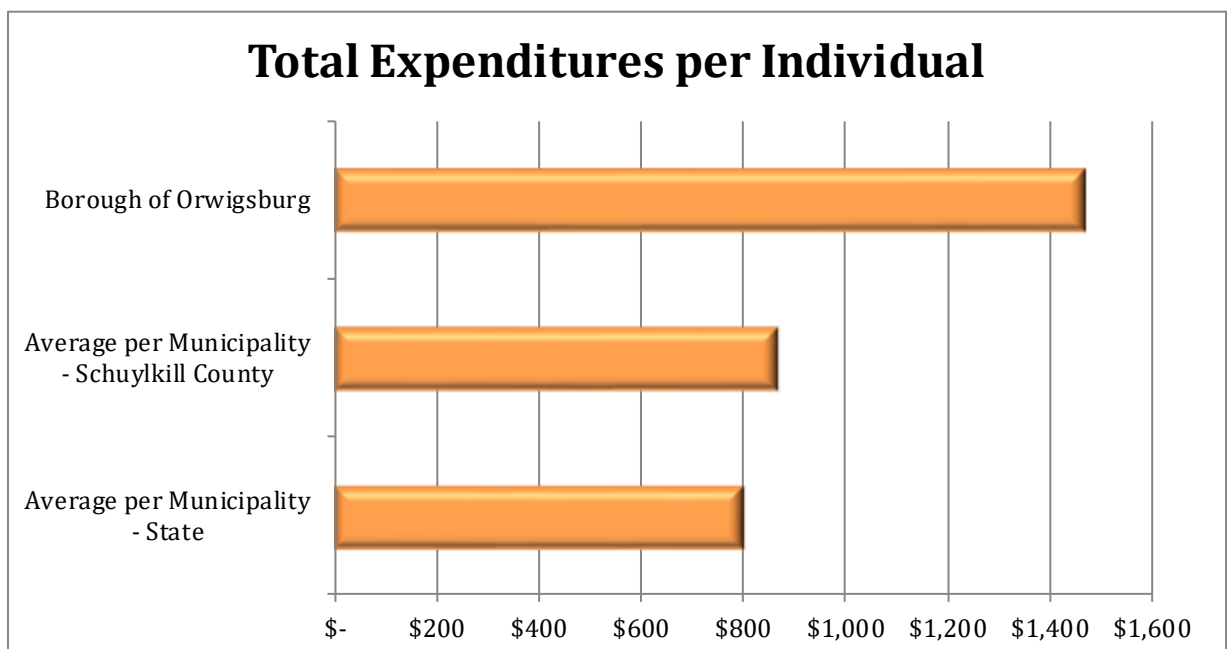
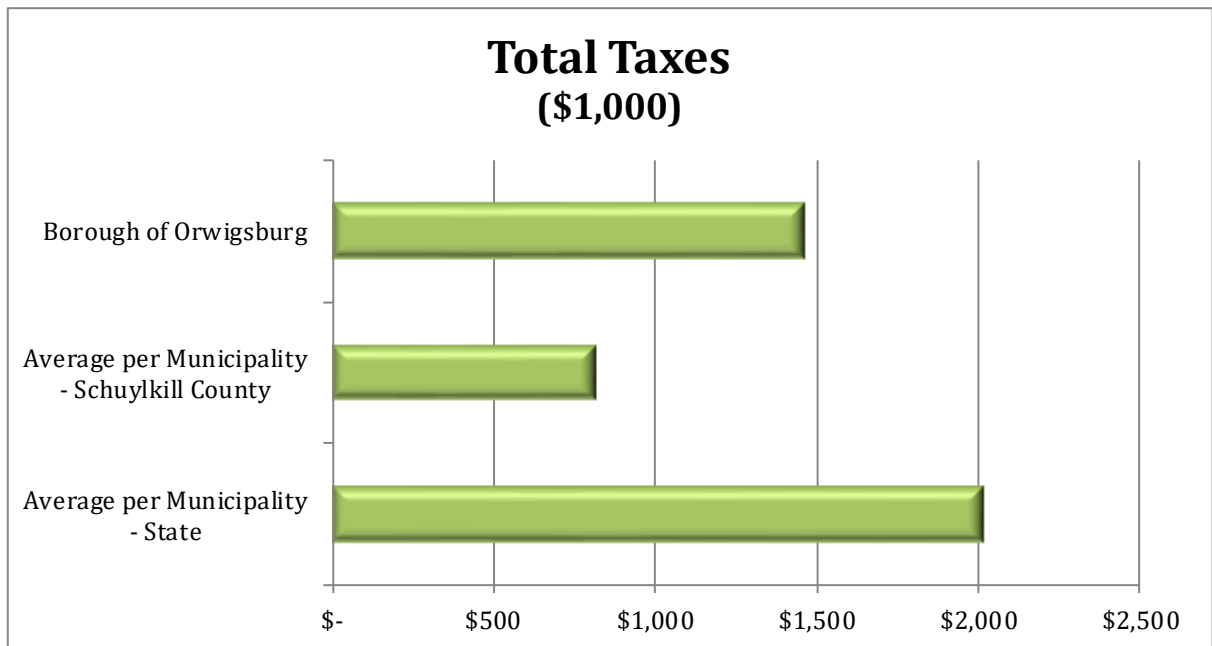


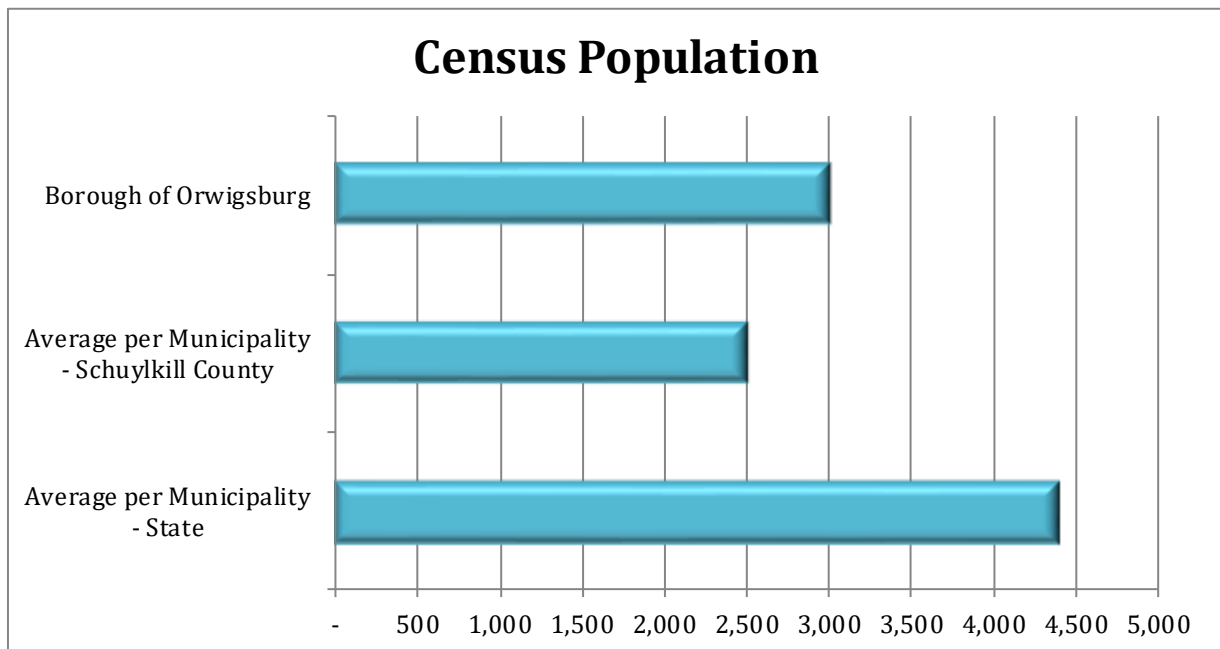
## MUNICIPAL STATISTICS

We have provided the following statistical information for your analysis. This was prepared from data accumulated by the state from the 2021 municipal filings and is available at <https://dced.pa.gov/local-government/municipal-statistics/>.









## CONCLUSION

The above comments are not intended to be all-inclusive, but rather those matters which came to our attention and we considered worthy of your consideration. Our comments and suggestions are submitted as constructive suggestions to assist you in strengthening your operations; they are not intended to reflect on the honesty or integrity of any employee.

We appreciate the opportunity to present these comments and recommendations and are prepared to discuss them further at your convenience. We would also like to take this opportunity to express our sincere appreciation to all personnel with whom we came in contact for their fine cooperation and valuable assistance during the performance of our audit.

This report is intended solely for the information and use of the Mayor, Borough Council, and management of Borough of Orwigsburg, and is not intended to be and should not be used by another other than the specified parties.

*Smith & Elliott Keams Company, LLC*

Carlisle, Pennsylvania  
July 14, 2023